EFFECTS OF ECONOMIC CRISIS ON THE ROMANIAN ECONOMY

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Abstract

Romania, which for 50 years was part of the "communist experiment", returned in 1989 to rules of market economy, hoping that within a reasonable period will reap the benefits of capitalist values. Global seizures that began to affect the whole world economic system in 2008, from the U.S., seem to invalidate not only all political and economic accumulation obtained by our country in almost 20 years but efforts to affect and ideal economic theories which fully adhered

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1. General context of crisis

Although last year was assured, even the high level that Romania will not be affected by global economic crisis, here it is now felt the full effects, both economic and social.

And could it be otherwise, even if we can not say that there is a direct link between the origin of the financial crisis erupted in the United States and the situation here, the most common view is that a financial crisis is triggered locally (in a region , country or institution), and then "spread" everywhere. This process of "spreading" is often encountered as the contagion. Moreover, news of contracting various national economies, have become customary in the media are not likely to give us an encouraging outlook, showing overall the dimensions of such a phenomenon

According to foxnews.com, the U.S. economy contracted by 6% from early this year, exceeding analysts' estimates, provided that the savings made in most areas of activity and the largest fall of U.S. exports in the last 40 suppressed the growth years for consumer spending, which was not enough to cover the massive savings made in almost all areas of activity - building houses, cars, equipment and software. The unemployment rate climbed to 8.9% in April from 8.5% in March, and employers have fired at least 600,000 workers for the fifth consecutive month, so that the

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recession beginning in December 2007, 5.7 million Americans remained unemployed and expectations are bleak, unemployment is estimated at 9.5% at the end of this year, will be increased to 9.7% in 2010.

Overseas, in Europe, the UK economy will contract by 3.8% this year and 0.2% in 2010, International Monetary Fund estimates that the recession will last longer than among the other major world economies, IMF warning that Britain would be the only member of the G7 to be affected by the recession in 2010.

In turn, Germany, Europe's largest economy, faced with declining GDP, which is the largest contraction of the economy in 1990, the reunification of Germany. Economic decline was exacerbated by the massive drop in exports and investment, amid worsening global economy, the recession has worsened in the latter part of last year.

In Spain, a country that, along with Italy, working an impressive number of Romanian workers, number of unemployed almost doubled in the last year, exceeding four million people, of which over 800,000 registered only in the first three months of this year, which led to an unemployment rate of 17.36% in the first quarter of this year, the highest in the EU, whose average is 7.9% (in February 2009). Moreover, these rates have not been achieved since 1998, when the unemployment rate climbed to 17.99% and the number of those left without a job is the highest in 1976 here, since these data were recorded for the first date. Massive degradation of the labor market occurred after the housing market fell and the activity in the construction sector (where have many Romanian) is dwindling, especially as the country through the worst recession in the last 15 years.

Dutch economy, already in a deep recession, will contract this year, according to the Institute for Economic Policy Analysis (CPB). 3.5%, being the largest decrease from 1931 till now, for next year, an institution estimated economic loss of 0.25%. In this economy dependent on exports, production is likely to remain low for a long time to come and unemployment rising to 5.5% from 4% in 2008, and 8.75% in 2010. Also, the budget deficit in the Netherlands would increase to 2.8% of GDP in 2009 and 5.6% of GDP in 2010.

Another dynamic and open economy, like that of Denmark, could shrink by 1.1% this year, according to Danish central bank estimates, because of decreased demand and production. GDP fell throughout 2008 and will continue to decline in 2009, so that GDP will be 1.1% lower than last year.

And Turkey's economy will contract by 3.6% this year due to global economic crisis, although initially, the authorities in Ankara estimates in an economic program for 2009-2911, a growth of 4% for this year.

Decreased global demand for automobiles, machinery and technology products are made to Japan's economy is headed for the worst recession since the Second

World War. Japan's economy has been compressed by 3.2% in October-December period, which is the fastest decline in the oil crisis in 1974. Economists believe it is possible that the decrease has continued in the first half of this year. Japanese Prime Minister Taro Aso launched an economic stimulus package, worth 150 billion dollars, for reviving the economy, reaching 3% of GDP, provides funds for clean energy generation, health care, support and promotion of culture and labor market tourism

Also in Asia, the IMF estimates that the recession will slow China's growth rate to 6.5% from 6.7%.

And Australia went into recession, which led the Government to announce a stimulus plan worth 26 billion dollars to protect the economy before the global financial crisis. The money will be spent on infrastructure, schools and homes, and to pay cash for those with low and average income.

Regarding the European emerging economies, IMF analysts believe that they will contract by around 3.75% this year and in 2010 will record an advance of only 1%, compared with increases of 4-7% recorded in period 2002-2007.

The region affected by this crisis is the commonwealth of independent states, who are facing dramatic decline in lending, lower demand and reduced energy prices. Thus, the IMF estimated that the economies of former Soviet states will compress up to 5.1% this year and will grow by 1.2% in 2010.

2. The economic crisis and its effects in Romania

As noted above, the global crisis, had no way to get around and our country. Lately, more and more Romanian companies face serious problems they attributed the economic crisis The following are some of the economic and social effects that in it.

- ***Lack of export controls in areas such as the United States or European Union, the destination of over 70% of Romanian exports***

International trade of Romania in January 2009 fell by 31.6% against 2008, exports recorded a decline of 24.0% and import a drop of 36.4% over the corresponding period last year, as shown in Overview of developments in international trade of Romania in January 2009 published ROMANIAN Trade Promotion Center. The total volume of intra trade of Romania in January 2009, fell by 27.1% against 2008, exports recorded a decline of 18.7% and import a drop of 32.6%. Intra export value (by the 26 EU countries) was 1483.8 million, down 18.7% from the same period last year and represented 77.3% of total Romanian exports. Intra import value (derived from the 26 EU countries) was 1859.8 million, down 32.6% from the same period last year and represented 73.5% of total Romanian imports. 70% of Romania's trade balance with the European Union, indicate that "provides" a fairly significant import crisis.

EXPORT OF ROMANIA FOB achieved in January 2009 amount to 1920.1 million, recording a decrease of 24.0% (-605.1 million euros) from the same period a year earlier, when it amounted to 2525.2 million. The value of exports to the 26 EU countries was 1483.8 million, down 18.7% over the same period last year and represented 77.3% of total Romanian exports. Export value was extra 436.3 million euros, down 37.7% over the same period last year and represented 22.7% of total Romanian exports. Compared with decreases in January 2009 of -24.0% for total, compared with January 2008, exports by product evolution was different, respectively, were dropped at: -49.4% mineral products, products chemical and plastics -42.3% base metals and articles thereof -37.0%; Articles of stone, plaster, cement, glass, ceramics -26.9% wood products industry, paper (including mobile) --18.4%, machine-building industry products (including electrical) -16.5% -14.4% textile and leather industry products and foodstuffs increases to 18.0%.

- ***Decreased demand in real estate***.

Many companies within the construction area and have unrealistic expectations in increasing the pace of development of the real estate sector, have invested significant sums in production capacity that can not be recovered easily because of decreased demand. However, many developers in the real estate sector is facing difficulty in selling apartments or new houses built, however, they continue to seek prices above 600 euros / sqm, provided that not more than 1 sq m built 300 to 350 euros sqm. Small investors who purchased land near cities for resale, and they were paid mostly by bank loans found that their price has dropped and it is very difficult to resell. Some of those who figured to start construction on these lots have been thinking and solutions coming from overseas, the United States, such as lotteries, to pay debts from the bank.

- ***Increasing the number of bankruptcies***

According to research company Coface, by the end of 2009 more than 20,000 firms will go bankrupt or judicial reorganization, which means 4% of all active firms. The most affected sectors are trade, construction, real estate and agriculture. Furthermore, these sectors have been affected both in 2008 (when 56% of the approximately 14,500 companies in bankruptcy came from trade and construction) and the first quarter of this year. While increasing the number of insolvency and bankruptcy is a perfectly normal market adjustment due to economic context. Because, do you, what matters is not the number of companies into bankruptcy, as their market value and their domain, yet most important and alarming change in recent months is that they have entered into insolvency nearly 900 firms in manufacturing (about 18% of the total, compared with about 15% in 2008). The most striking development is that the share of companies specialized in real estate transactions, from 1% in 2008 to 6% in the first quarter. With regard to zonal distribution of bankruptcies in 2008, Bucharest, Prahova, Timiş and held the top three places.

- ***Unemployment and return home of Romanians that worked abroad***

After a period of low unemployment (4% in 2008), estimates for this year made by the European Commission and the International Monetary Fund is between 8 and 8.9% for 2009 and 7.7 and 9.7% 2010. The National Agency for Employment of Labor Force nearly 31,000 collective redundancies were made only in the first two months of the year. Textiles, chemical, oil and gas, and construction is and will be in the coming months the main areas which are and will be dismissal. Furthermore, recruitment firms say that banking, financial services and real estate's most spectacular falls were recorded in terms of volume recruitment. On the other hand, employment in the volume have done just retailers who are responsible for nearly all of the over 3,000 people employed in the first three months of the year, according to an analysis carried by Ziarul Financiar. New shopping centers - Militari Shopping Center and Grand Arena, but the extension of the older malls as Plaza Romania and Iris Shopping Center, have meant about 1,700 jobs in Bucharest. International food trade networks will create around 8,500 jobs by the end, given the fact that for this year are scheduled opening 100-110 stores in modern trade the dominant food. On the other hand, is a new situation, that of returning the country to Romanian workers affected by unemployment, and important families sent funds remaining at home.

- ***Increasing food prices***

Anyone can see that markets are full of vegetables and fruits to import, especially from Turkey and Jordan. Prices have increased by 20% only last month, even though the euro has risen against the lion for some time, but because virtually no local competition, there are no greenhouses producing all season, and vegetables and fruit Romanian season reach the market with a delay of 2 months over imported. Amid a prolonged drought from last spring, food prices increased on average by 10.82 percent from last year, percentage reached in March, an increase higher than inflation rate which was set at 8.63 to percent. After lowering the previous year, while the main cereal harvest fell by 50 percent on average agricultural production this year promises to be better because rich spring precipitation. But farmers already provide a 10 percent increase in prices of wheat and corn because more expensive diesel, whose price has gone from 1.1 euros per liter, in a country where the average salary barely reaches 350 euros. However, Romanian producers denounced the policy of large distributors, which they accuse require a series of "duties and compensation" which translates into an "artificial increase in prices. Employers from the food industry also criticizes the international chains that "favors imports" at the expense of local products and claim that "the Romanian market is virtually blocked by the interests of brokers and supermarkets, and Romanian farmers struggling to produce organic fruit and vegetables, but their efforts are futile, because they place "

- ***leasing companies face the problem of returning the goods financed, both cars and machinery***.

By reducing income or dismissal, are unable to pay the leasing rates, some users are in limited circumstances, were forced to abandon the car, even if they have paid several installments, and they have returned to sponsor companies. Meets the same situation and if companies, which due to weaker orders and prevented from coming into payment, were "forced" to give up the fleet they had, or specific equipment involved in the production process. The situation is very happy for leasing companies, after a period of accelerated growth over 5 years to see the parks occupied by cars returned with heavy machinery that are resold, given that many of them were used in May than 1 year and half, and new cars prices, influenced by discounts practiced new car dealers are sometimes lower than prices of these cars used. The situation is worse in the leasing of equipment, where funding is considerable value and resale possibilities are limited.

- *Production of black, no billing, escaping to tax and resulting in extremely serious problems receiving revenue from the state budget, highly pressured. Romania's state budget has difficulty, in this moment, to ensure that expenditure is committed, and the Ministry of Finance made frequent loans to cover running costs*

- *Reducing the minimum wage to the economy and eliminating bonuses, increases and overtime.*

- *Private kindergartens facing withdrawal of children by parents who no longer can afford to pay fees of 400-500 per month.*

- *Insurance companies no longer find new customers, just shelves for children are those that are concluded.*

- *Issues for people with housing loans, lower prices for apartments*

3. Conclusions

The vulnerability of Romania in the current economic crisis takes not only international financial resources, more expensive to cover the trade deficit (of which about 2 billion are generated only in the agri-food sector), but also unable to increase domestic productivity and exports on short terms. According to Western analysts, Romania has demonstrated repeatedly that it is unable to promote long-term macroeconomic policies, the often being more important the political factor.

At this point, there was a "ray" short-term economic prospects and the environment and the actions of the state to find a way out of crisis by developing a package of anti-crisis measures. What is lacking Romania, say the experts, is an analysis of the financial crisis and economic impact on all economic sectors, because it shows its effects at different time intervals, with a different magnitude, the longevity of a crisis different from a sector.

Moreover, a World Bank report on Romania stated that our country faces risks pro-cyclical fiscal policy, wages, external financing and reduced external demand, which may lead to a spiral of economic contraction and the problems in the banking sector.

The stability of banks with majority Romanian (state or private) has become particularly important to maintain confidence in the banking sector, any problems arising can cause serious effects of the economic climate in our country. In this respect there is still more views in accordance with the recession in Romania will be the effects will be avoided or reduced through a combination of fair national effort (primarily) with leverage provided by international institutions.

Not all scenarios about Romania are so bleak. Representatives of the Swedish company East Capital investment management believe that Romania is better positioned than Hungary and the Czech Republic. "During the economic downturn, states export depends Hungary and Czech Republic are also vulnerable. At the opposite extreme, Turkey, Romania and Russia, with a high domestic consumption, is in a better position to face economic storm ' said Karin Hirn, co-founder of the Swedish asset management company East Capital

Moreover, some analysts believe that Romania has three advantages to the countries of the region, but they are not (re) raiting known international agencies: the exposure of more than export to foreign markets (Romania exports is not than 24% of GDP, compared to 60-70% as it is in Hungary, Slovakia, its Czech) loans are negotiated in Romania, as a ratio to GDP, only 39% compared to values of 70-80% in other states area, so that no matter how bad it would perform the banking sector should not affect the economy in a dramatic way and, not least, Romania is not affected by price increases in energy products. Along with Poland, are the only countries in Eastern Europe which are not dependent on imported gas and oil.

All these advantages may be, along with packages of measures already implemented by the Romanian authorities, as our country to cross this difficult time with less cost, with easier to heal wounds of post-cri*sis*.